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The Real Estate TRENDS

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Number 58

REAL ESTATE ACTIVITY

As most of us know, it is periodically necessary to revise almost any statistical index that extends over a long period of time. At various intervals new information must be incorporated into the index and adjustments must be made for changes in certain basic factors. If this is not done, the index will gradually become out of date and will in time become virtually useless.

Naturally, changes of this type must be made in our national real estate activity index. Through the years we have constantly added to the number of cities upon which we report real estate activity (96 cities in our Real Estate Analyst Bulletins). In this latest revision of our national activity index we have incorporated the data from 32 new cities. At the same time the usual adjustments have been made to compensate for changes in population.

This revision has taken almost a year to accomplish; however, the index is now composed of 68 cities and is compiled in such a way that new data can be added to it as it is received. In a few months it will be made up of all 96 cities. Naturally, any new cities will also be added to the index as soon as information is received from them.

Our new national real estate activity cycle is shown on pages 552 and 553. The red shaded portion is the new cycle, while the blue line represents the old activity cycle. You will notice that the biggest difference between the two cycles shows up during the most recent years, and that the new cycle shows an activity of 17.5 points above normal compared with about 30 points above normal on the old cycle. The new cycle also shows that the real estate boom of the twenties hung on a few months longer than the boom shown by the old cycle. These are the two most important revelations of the new cycle.

Undoubtedly the most significant facts brought to light by the new index are the lower level of real estate activity and the lower level of the 1949-1950 recovery period. These new figures give us a much more accurate index and, therefore, a much better one. All of us can now come a lot closer to telling where real estate activity is and where it has been and, consequently, any guesses we want to make regarding its future should be more precise. In the January 1953 issue of the Trends Bulletin we will summarize our guesses regarding real estate activity for the coming year.

**REAL ESTATE
SALES VALUES**

We have finally completed our real estate sales price index. This index, which required a large part of the time of our organization for a 3-month period, will become a regular part of our reports in the future. We expect to publish a great many worth-while studies based on this index.

Our index is made up entirely of what we call "duplicate sales." In other words, it is made by comparing the selling price of a piece of property with the selling price of the same property at a different date. In many instances, we have found three, four, five and even six sales on the same piece of property over a period of 44 years. While this method seems relatively simple, we have thus far made nearly 50,000 mathematical computations in compiling our index.

At the present time our sales index shows a reading of 297, or 4% below the mid-1952 peak of 310. In this index we consider the year 1939 as our base or equal to "100." In other words, if a house sold for \$5,000 in 1939, its peak price in mid-1952 would be \$15,500, and its price today would be in the neighborhood of \$14,850. It, therefore, appears that residential property reached a peak about the middle of this year and has dropped somewhat during the last 6 months.

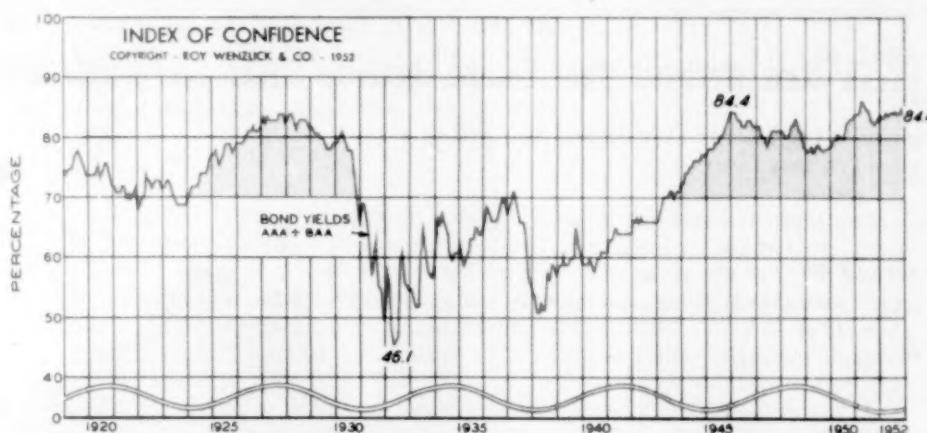
INDEXES OF GENERAL BUSINESS AND REAL ESTATE

Description		Nov. 1951	Nov. 1952	% change
Real estate activity	Comparison to normal	+14.4	+17.5	+2.7
Mortgage activity	1905-1918, 1933-1947 = 100	170.0	199.0	+17.0
Foreclosures	No. per 100,000 families	4.9	5.1	+4.1
Construction	No. of nonfarm dwelling units 1st 11 months	1,030,500	1,052,500	+2.1
Rent index	1923 = 100	103.5	107.4	+3.8
Wholesale building material prices	1947-1949 = 100	118.5	118.4	-0.1
Construction costs	6-room frame house (St. Louis)	\$15,971*	\$15,914*	-0.4
Wholesale prices	1947-1949 = 100	113.6	110.7	-2.6
Cost of living	1935-1939 = 100	187.4†	190.9†	+1.9
Stock prices	Dow-Jones averages - High Low	264.06 255.95	283.66 270.23	+7.4 +5.6
Department store sales	1947-1949 = 100	113	112	-0.9
Industrial pro- duction	Federal Reserve index, 1947-1949 = 100	219	225‡	+2.7

*Dec.

†Oct.

‡Estimated



INDEX OF CONFIDENCE CONTINUES HIGH

Leonard Ayres of the Cleveland Trust Company.

The index above is a very simple indicator of business confidence, or rather the confidence of informed investors regarding the business outlook. It was devised by the late General

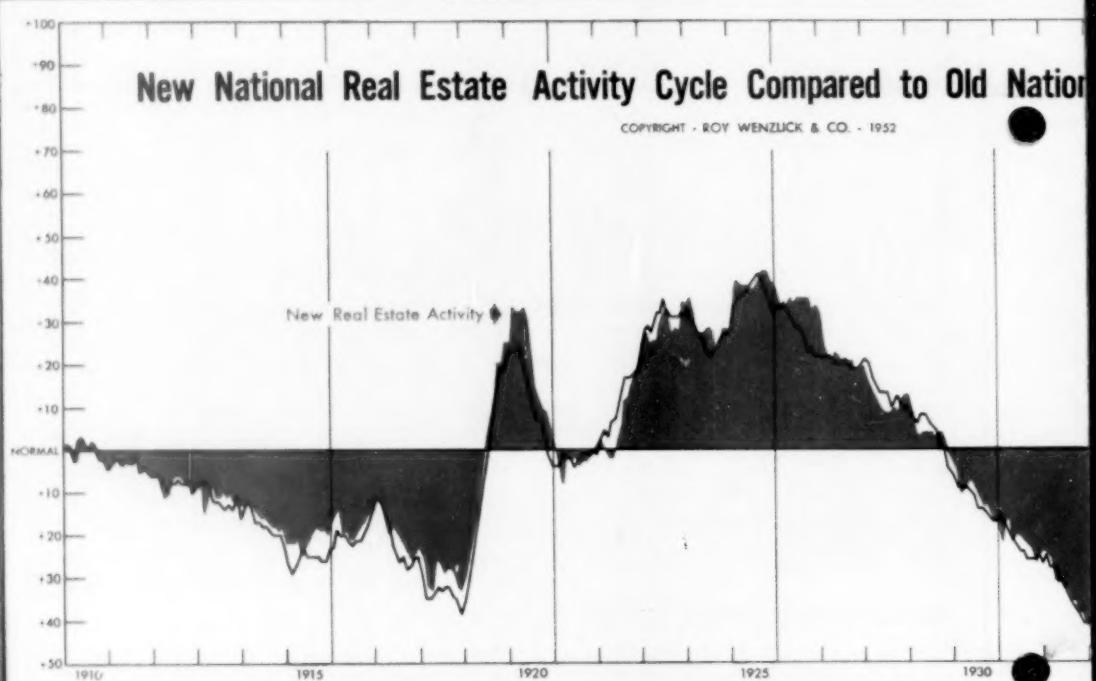
The index is derived by dividing the yields of Aaa bonds by the yields of Baa bonds. During the upswing and at the top of a business boom, investors frequently regard the issues of weaker corporations almost as favorably as they do those of the stronger corporations. Consequently, they bid up the price of the lower bonds. The index indicates that at the present time yields on Aaa bonds are running about 85% of the yield on Baa bonds.

As business conditions show signs of worsening, investors begin to lose confidence in the weaker issues. They become more interested in safety of investment than in the higher return. When this attitude develops, the price on the Baa bonds begins to drop. Naturally, as the price of the bonds drops, the yield begins to rise.

The new peak of 86.0 was reached in March 1951, followed by a slow decline to 84.2 in June. This recovery, beginning in 1950, reversed the slow downward trend that had lasted since early 1946. Since the last reading on the chart is for November 1952, the index has not yet reflected any change in confidence that may result from the Presidential election.

REAL ESTATE MORTGAGE ACTIVITY

Whatever the coming year may bring to the mortgage business, we can be sure of one thing - it will be an interesting year. At no time in the recent past has the industry been faced with the possibility of so many rapid and drastic changes affecting its operation. That



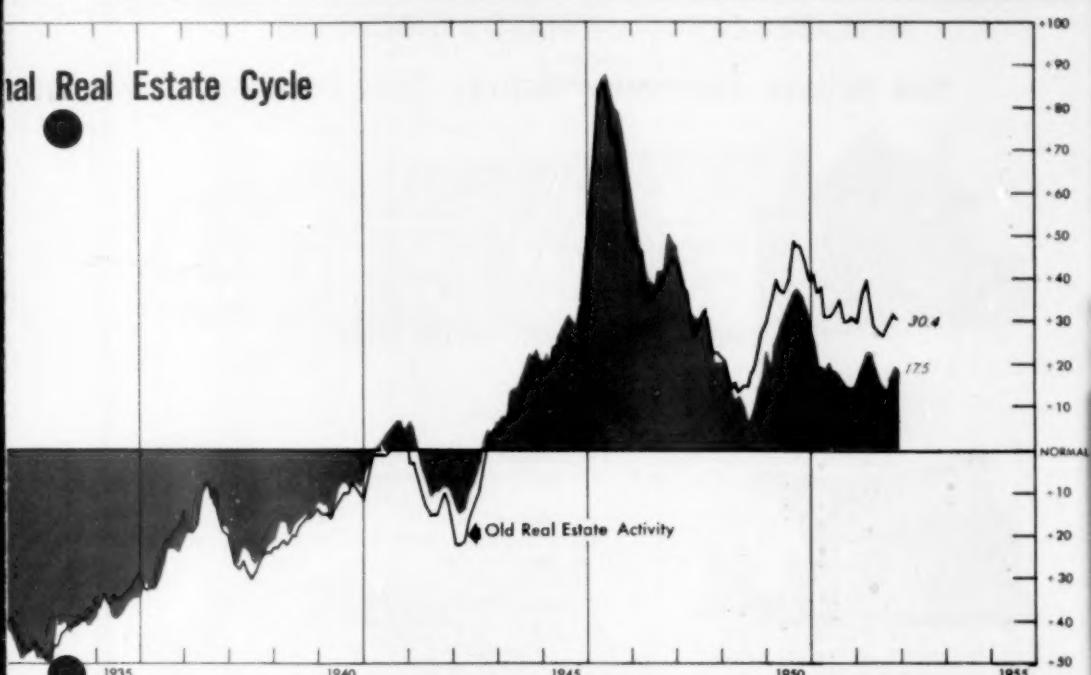
does not mean that we necessarily expect all of these possible changes to take place. It does mean that the alert lender should be prepared for these possible changes if he is to take full advantage of them.

No other branch of the real estate industry has been so intimately blessed and afflicted with government assistance and regulation as have the mortgage lenders. How much regulation will they be shut off in the near future . . . and with less regulation, will there be less assistance . . . and if the assistance is less, how can the times be as fat as they have in the past? What changes in the over-all policy and day-to-day routine will the new Administration bring to the FHA-VA-FNMA? Will the VA exercise its right to raise its interest rate and will the FHA follow suit? These are just a few of the questions that mortgage lenders are trying to puzzle through.

Compounding this confusion among the details of their day-to-day business is an uneasiness and fear of a drop in real estate values. While this uneasiness is ever-present among the more contemplative members of the industry, it has become more pronounced in recent months.

Insofar as the government's activity in the lending field is concerned, we can be certain that the new Administration will be less liberal. Guarantees will possibly be scaled down and rates may be encouraged to rise. Rent controls are almost sure to go next April and public housing will be played down. The entire

Annual Real Estate Cycle



real estate industry, and particularly the lending section, will operate in a virtually "free economy." For the younger firms which have operated only through the years of constantly expanding governmental munificence this will be a totally new experience. Even the older firms will have to make some rather startling mental adjustments. We hope the shock will not be too great nor the diet too lean. Furthermore, we hope the industry has the ruggedness to withstand the rigors of a free economy as well as it withstood the rigors of government interference.

RESIDENTIAL CONSTRUCTION

What most of us knew several months ago is now official. For the fourth straight year, residential construction volume has exceeded one million nonfarm units. This magic number was passed some time during November, when 86,000 units were put under way, bringing the 11-month total of this year to 1,052,500. This is 2% (22,000) ahead of the 11-month total of 1951.

While this is a remarkable accomplishment, it has been pointed out many times before. On the other hand, we have heard no one call attention to the fact that the construction industry has averaged better than 1,000,000 nonfarm starts per year for the past 7 years. If we assume that the 1952 volume will reach 1,100,000 nonfarm starts, the grand total of the years 1946 to 1952 amounts to

(cont. on page 556)

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
(December 1952)



SIX-ROOM BRICK HOUSE

(FRAME INTERIOR)*

Content: 23,100 cubic feet
1,520 square feet

Cost 1939: \$ 6,400
(27.7¢ per cubic foot; \$ 4.21 per square foot)

Cost today: \$16,836

(72.9¢ per cubic foot; \$11.08 per square foot)

INCREASE OVER 1939 = 163.1%



FIVE-ROOM BRICK VENEER HOUSE*

Content: 24,910 cubic feet
1,165 square feet

Cost 1939: \$ 5,440
(21.8¢ per cubic foot; \$ 4.67 per square foot)

Cost today: \$14,440

(58.0¢ per cubic foot; \$12.39 per square foot)

INCREASE OVER 1939 = 165.4%



SIX-ROOM FRAME HOUSE*

Content: 24,288 cubic feet
1,650 square feet

Cost 1939: \$ 5,671
(23.4¢ per cubic foot; \$3.44 per square foot)

Cost today: \$15,914

(65.5¢ per cubic foot; \$9.64 per square foot)

INCREASE OVER 1939 = 180.6%



6-ROOM CALIFORNIA BUNGALOW - NO BASEMENT

Content: 12,119 cubic feet
992 square feet

Cost 1939: \$3,392
(28.0¢ per cubic foot; \$3.42 per square foot)

Cost today: \$9,029

(74.5¢ per cubic foot; \$9.10 per square foot)

INCREASE OVER 1939 = 166.2%

*Costs include full basement.

INCREASES IN BUILDING COSTS SINCE 1939

ST. LOUIS
(December 1952)



COMMERCIAL BUILDING - NO BASEMENT

Content: 115, 850 cubic feet
8, 075 square feet
Cost today: \$50, 933
(44.0¢ per cubic foot; \$6.31 per square foot)



18-FAMILY BRICK APARTMENT (FRAME INTERIOR)*

Content: 168, 385 cubic feet
13, 260 square feet
Cost 1939: \$ 60, 300
(35.8¢ per cubic foot; \$ 4.55 per sq. ft.)
Cost today: \$159, 393
(94.7¢ per cubic foot; \$12.92 per sq. ft.)
INCREASE OVER 1939 = 164.3%



30-UNIT REINFORCED CONCRETE APARTMENT*

Content: 303, 534 cubic feet
21, 372 square feet
Cost 1939: \$135, 000
(44.5¢ per cubic foot; \$ 6.33 per sq. ft.)
Cost today: \$342, 934
(\$1.13 per cubic foot; \$16.05 per sq. ft.)
INCREASE OVER 1939 = 180.0%

(cont. from page 553)

7,063,500 units, or an average of 1,009,000 units annually. It is little wonder that so many observers feel that "1,000,000 homes per year" has become a permanent fixture in our national economy.

If we compare the rate of residential construction during the present boom with the rate during the last boom, we find the present boom lagging by a considerable margin. During that 7-year period (1922-1928) there were an average of 41.4 starts per year for every 1,000 nonfarm families. The rate during the present boom has varied from 21.2 to 37.5 starts per year per 1,000 nonfarm families, and the average over the 7-year period (1946-1952) has been 28.1 (compared with 41.4 during 1922-1928). If the rate maintained during the boom of the twenties had been maintained during the last 7 years, the total for the period would be almost 10,000,000 starts, or an average in excess of 1,400,000. This would be 40% higher than the present average of 1,009,000.

This comparison is not made to disparage the accomplishment of the construction industry. It is made to point out the fact that the serious overbuilding that followed the last boom has not been repeated so far in the present boom. While some overbuilding has gone on, any serious amount can still be foreshadowed by a series of "stretch-outs" that have become so popular in the field of national defense.